

Message Text

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PAGE 01 MONTRE 01916 092332Z

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ACTION EUR-12

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AMCONSUL QUEBEC

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E. O. 11652: N/A

TAGS: EFIN, ECON, PINT, CA

SUBJ: QUEBEC FINANCIAL CLIMATE - PLACEMENT OF DEBT ISSUES

1. LOCAL PRESS CARRIED REPORTS TODAY THAT CITY OF LAVAL, INDUSTRIAL SUBURB OF MONTREAL, WILL ATTEMPT TO SELL \$13 MILLION BOND ISSUE ON CANADIAN MARKET, AFTER ITS LEAD INVESTMENT BANK, FIRST BOSTON, REPORTED IT WAS UNABLE MARKET ISSUE IN U.S., AS VICTORY OF PARTI QUEBECOIS IN PROVINCIAL ELECTIONS CAUSED "SERIOUS WORRY" AMONG INVESTORS.

2. BEFORE ELECTIONS, LAVAL HAD BEEN OPTIMISTIC ABOUT PLACING ISSUE AT GOOD TERMS IN U.S., AS MOODY'S HAD GIVEN LAVAL "A" RATING ONLY TWO MONTHS AGO, THE BEST RATING LAVAL HAD EVER RECEIVED. IN JUNE, LAVAL HAD SUCCEEDED IN SELLING \$20 MILLION ISSUE IN EUROPEAN MARKET.

3. ACCORDING TO PRESS, WITHIN WEEK OF LAVAL'S AUTHORIZATION TO PROCEED WITH BOND ISSUE ON SEPTEMBER 28TH, FIVE AMERICAN INSTITUTIONS HAD TENTATIVELY AGREED TO PURCHASE \$8 MILLION WORTH OF BONDS. PRE-ELECTION OPINION POLLS SHOWING PQ IN LEAD CAUSED SERIOUS WORRY, HOWEVER, AMONG INVESTORS, WHO CANCELLED THEIR BIDS. FIRST BOSTON THEREFORE DECIDED TO SUSPEND ALL OFFERINGS UNTIL DEFINITIVE RESULTS OF ELECTION WERE KNOWN. AFTER ELECTION, BONDS WERE AGAIN OFFERED, WITH TWO INSTITUTIONS

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PAGE 02 MONTRE 01916 092332Z

REPORTEDLY EXPRESSING INTEREST IN ISSUE, BUT AT HIGHER

INTEREST RATES THAN ORIGINAL OFFER PRICE. NEITHER INSTITUTION FOLLOWED THROUGH, HOWEVER.

4. LAVAL HAS NOW EXTENDED INVITATIONS TO PROVINCIAL BROKERAGE FIRMS TO HANDLE THE BONDS ON CANADIAN MARKET WITH TENDERS TO BE OPENED NEXT TUESDAY.

5. COMMENT: POSITION TAKEN BY U.S. INVESTORS SHOULD CAUSE NO SURPRISE IN VIEW OF UNCERTAINTIES FOLLOWING PQ VICTORY IN ELECTION. DURING LAST WEEKS, NEW YORK BOND MARKET HAS NOT BEEN TIGHT ON SUPPLY END, AND BUYERS HAVE BEEN SELECTIVE WITH REGARD TO QUALITY AND YIELD. WHILE BOND INVENTORIES WERE DEPLETED BY STRONG MARKET RALLY LAST WEEK, OFFERING CALENDAR OF NEXT COUPLE OF WEEKS IS ABUNDANT. MOREOVER, STREET TALK IS THAT LAVAL BONDS DID NOT RATE "A" RATING ASSIGNED BY MOODY'S. REPORT IS THAT FIRST BOSTON SPENT MONTH TRYING TO WORK LAVAL BOND RATING UP TO "A" FROM MOODY'S, WHEN THEY MIGHT BETTER HAVE SPENT TIME LINING UP BUYERS FOR THE ISSUE. THUS, LAVAL ISSUE IS NOT SEEN IN INVESTMENT COMMUNITY AS REAL SETBACK TO QUEBEC'S FINANCIAL IMAGE.

6. THIS IS NOT TO SAY THERE IS NO CONCERN OVER FUTURE ATTRACTIVENESS OF QUEBEC'S ISSUES. MANY INVESTORS ARE EXPECTED TO CONTINUE WAIT-AND-SEE ATTITUDE FOR SOME TIME, PERHAPS UNTIL REFERENDUM MAY CLEAR AIR. BIG BUYERS ARE SAID NOT BE PANICKY, HOWEVER, PARTICULARLY IN CASE OF HYDRO-QUEBEC, WHICH IS STILL CONSIDERED ONE OF STRONGEST UTILITIES IN NORTH AMERICA. SPREAD BETWEEN HYDRO QUEBEC AND PROVINCE OF QUEBEC ISSUES IS EXPECTED TO WIDEN, REFLECTING STRONG FINANCIAL POSITION OF FORMER. HYDRO IS REPORTED TO HAVE OVER \$1 BILLION DOLLARS IN BANK AT MOMENT, WHILE PROVINCE IS FACED WITH \$400 MILLION DEFICIT.

7. FIRST BIG TEST OF QUEBEC'S FINANCING ABILITY SHOULD OCCUR SHORTLY. NEGOTIATIONS HAVE BEEN UNDERWAY FOR OVER A MONTH WITH PRUDENTIAL LIFE INSURANCE FOR PRIVATE PLACEMENT OF \$300 MILLION TO FINANCE INTEGRATED STEEL PLANT AT FIRE LAKE, 250 MILES NORTH OF POINT CARTIER. FIRE LAKE IS PROJECT OF SIDBEC, QUEBEC'S PROVINCIALY-OWNED STEEL COMPANY, IN PARTNERSHIP WITH BRITISH STEEL AND U.S. STEEL. NEGOTIATIONS ARE SCHEDULED TO BE COMPLETED DECEMBER 23 AND ARE REPORTED TO REMAIN ON TRACK. LIMITED OFFICIAL USE

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PAGE 03 MONTRE 01916 092332Z

WHILE SOME PROBLEMS HAVE ARISEN IN NEGOTIATIONS, REPORTS SUGGEST THAT DIFFICULTIES ARE DUE TO PROBLEMS BETWEEN PARTNERS, RATHER THAN TO RELUCTANCE OF PRUDENTIAL LIFE INSURANCE TO GO THROUGH WITH DEAL.

8. WITH POSSIBILITY THAT THINGS MAY GET A LITTLE TOUGH OVER NEXT YEAR, FINANCIAL MANAGERS ARE BEGINNING TO THINK OF OTHER ALTERNATIVES TO U.S. MARKET. HYDRO-QUEBEC IS WORKING ON PLACEMENT

IN EUROPE THAT SHOULD BE COMPLETED SOME TIME BEFORE CHRISTMAS.
MORE PROVINCIAL ISSUES WILL BE PLACED IN CANADIAN MARKETS,
BUT CAPACITY IS LIMITED QUEBEC INSTITUTIONS HAVE BACKSTOP IN
CAISSE DE DEPOT, WHICH HANDLES PENSION PLANS FOR PROVINCE,
PARA-GOVERNMENT WORKERS, AND SOME UNIONS SUCH AS CONSTRUCTION.
FUNDS AVAILABLE FOR INVESTMENT AMOUNT TO ABOUT \$1 BILLION
ANNUALLY, ABOUT HALF OF WHICH HAS CUSTOMARILY BEEN PLACED IN
HYDRO-QUEBEC ISSUES. PRESENT PORTFOLIO OF CAISSE APPROXIMATES
\$5-6 BILLION AND SHOULD WORST COME TO WORST, SOME ISSUES COULD
PROBABLY BE SOLD TO MAKE ROOM FOR NEW PROVINCIAL ISSUES.

9. IN THE MEANTIME, QUEBEC IS MOVING TO PRESENT BEST FACE
POSSIBLE. FINANCIAL REPRESENTATIVES OF HYDRO-QUEBEC HAVE BEEN ON
MOVE CONSTANTLY SINCE ELECTION, SPREADING WORD IN U.S. ABOUT
STRENGTH OF HYDRO-QUEBEC, AND PREMIER RENE LEVESQUE HAS NOW BEEN
SCHEDULED FOR JANUARY SPEECH BEFORE ECONOMIC CLUB IN NEW YORK.
(SEPTTEL FOLLOWS).
HARPER

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